

United States Senate
Office of the Democratic Leader
Washington, DC 20510-7010

February 21, 2003

The President
The White House
Washington, DC 20500

Dear Mr. President:

The combination of a national recession, a 40% increase in unemployment since January 2001, and historic state revenue declines has severely strained the fiscal well being of states. The nearly \$80 billion deficit the states must close this year is forcing them to cut essential services and raise taxes, actions that could reduce GDP by one percentage point and hamper our economic recovery. At the same time, at least 1 million Americans are at risk of becoming uninsured as states cut their Medicaid programs. With these realities in mind, I am writing to express my opposition to the Administration's Medicaid block grant proposal and to ask you to work with Congressional Democrats to craft a bipartisan response to the need for short-term, meaningful fiscal relief to states.

State fiscal relief is a critical component of economic recovery and should be enacted as quickly as possible. A federal short-term investment in this area will help states mitigate devastating cuts in Medicaid services, provider payments and ultimately, jobs. In fact, our nation's most prominent economists, including Nobel Laureates Robert M. Solow and Joseph Stiglitz, have underscored short-term relief to states as one of the best ways to boost the economy. I believe it should be a central component of the economic recovery package that both the House and Senate will consider in the near future.

Bipartisan agreement on a state fiscal relief package can and must happen. There is strong bipartisan support in the Senate for S.138, sponsored by Senators Rockefeller and Collins. This bill would provide \$20 billion to help governors cope with a souring economy, which has resulted in new demands on their Medicaid programs. A similar proposal passed the Senate last summer by a vote of 75 to 24, so the approach clearly has bipartisan appeal and would provide relief to the states quickly and efficiently.

In contrast, the Administration proposal to loan states \$3.2 billion this year -- only if they agree to accept a capped, block grant for some or all of the Medicaid program -- is the wrong prescription for both our economy and our health care system. For a fraction of what states would get under the bipartisan Senate proposal, states would have to accept a cap on a majority of their Medicaid dollars. As I understand the proposal, at least 83% of Medicaid spending on seniors, and 66% of spending on the disabled, would fall under this cap. Funding for prescription drugs and nursing home care would fall

under the cap. States will not receive federal funds based on the needs of people in their state, and will see the value of their allotment diminish as they are forced to pay back the loan in later years. While states would gain greater flexibility under the proposal, this should not come at the expense of inadequate federal funding and the elimination of important federal beneficiary protections. It's clear that the proposal would lead to cuts in eligibility and services for many of the most vulnerable Americans and would not provide adequate short-term relief.

If the intention of the Administration's block grant proposal is to give states more flexibility, it is not the only way states can achieve more flexibility in the Medicaid program. Congress can work with you and the states to develop appropriate reforms that will make the program more responsive to beneficiary needs, more efficient and easier to manage, while protecting beneficiary access to essential quality health care services. While I stand ready to work with you on appropriate Medicaid reforms, this effort should not hold up the enactment of short-term fiscal relief. We need to act quickly to address the immediate crises faced by the states, and not hold such relief hostage to legislative changes that can be considered later this year, when I expect we will take up other health issues.

Working together, I am confident we can develop a bipartisan state fiscal relief package and a host of other reforms, including a structurally sound and meaningful Medicare prescription drug benefit.

Sincerely,

A handwritten signature in blue ink, appearing to read "Tom Daschle", is written over a printed name. The signature is stylized with a large, looping initial "T".

Tom Daschle